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# MICRO CREDIT FINANCE AND THE GROWTH OF AGRICULTURE IN OGUN STATE, NIGERIA

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ABSTRACT
This paper highlighted the contribution of micro credit finance to the growth of agricultural production in Nigeria and critically evaluated the need for financial institution in the Nigeria's agricultural productivity. The expected role of the financial institutions in solving the problems of rural and near rural economy; such as poverty, lack of adequate financial and business advice and its effectiveness in the area of developing the economy of their immediate environment and transforming these in a way of solving national economic problem that will lead to economic growth and development. The socio economic and cultural attitudes of the farmers towards the micro credit contribution to the economic growth of the nation were also examined. The paper also examined the performance of the financial institutions and problems facing them generally so as to enable the licensed controlling authority to solve the problems of the financial institution based on management, capital base and timeliness of disbursement and recovery. Furthermore, the paper examined the future prospects for the micro credit institutions and what is expected of the controlling body for effective management of the credit banks. The scope, the expected role and problems of credit institution were examined and possible solutions recommended for the success, progress and prosperity of agricultural productivity in Nigeria

KEYWORDS: Micro-credit finance, Agriculture

## INTRODUCTION

The success of any stable economy can easily be determined by the level at which its financial resources is being managed, mobilized and distributed to meet up with the needy sector of the economy, that is, from where there is idle fund to where there is need. This brings us to the idea of banking system and generally to the pillar in which the financial institution/industry is laid upon. The financial institution therefore seek for excess fund in the economy and redistribute it to where it can be effectively put into use through their role of accepting deposit, creating credit, mobilizing saving for investment purpose and facilitating effective financial intermediation.

However, in spite of the increasing rate of growth and development of the financial industry, the structure of Nigeria economy is still characterized by how level of agricultural output, heavy dependence on oil sector and imported raw materials or inputs, machinery and spare parts by our industries unemployment, inflation and underdevelopment, inflation and underdevelopment of rural sector of the economy.

No wonder, the United Nation Food and Agricultural Organization (FAO) 1998 report, stated that: Food shortage is one of the major problems facing nearly all countries of the world today. The FAO estimates for Africa has also indicated that the percentage of the population undernourished due to food shortage has increased from one hundred and three (103) million in 1970 to two hundred and fifteen (215) million in 1990.The World Development Report (WDR, 1981) pointed out that food production per capital had risen on average by only five (5) percent in ten years in low-income countries, and had actually fallen on average if China and India were excluded from the sample. Moreover, the world food programme (WEP, 1998) reported that food shortages round the world were on the rise with more people suffering from malnutrition and hunger compare to that of 1996.

In Nigerian context, the early 1970s witnessed the discovery of oil in large quantities which led to increase in the revenue based of the nation through the production of oil and its by-products alone at the detriment of agricultural production which serves as the major revenue base before the discovery.

Prior to independence, the major sources of financing agricultural production can be grouped into public financing and private (self financing and NgOs). The public financing of agricultural is based on the annual fiscal budget of the government which support the growth of both cash and food crops while the private financing is in form of self financing and the NGOs which was targeted at food crop production as home grown crops. However it was recorded that crude implement were in use by the Nigerian farmers and food and revenue were found in abundance within the country with high level (75%) of employment of the rural people. These have contributed immensely to the development of our dear country Nigeria and a lot of foreign exchange earnings needed for development was generated from this sector of the economy.

Thus, it is perhaps for this reason that this paper is trying to lay emphasis on any meaningful effort to foster economic development and improve the standard of living of Nigerian citizens to involve development of agricultural products and small scale producers of the economy in both rural and urban communities. According to Sancho (1996:7), a key factor for ensuring a sustainable way of life is a more equitable distribution of physical assets (e.g. land) and greater access to the means of production (including credit and information). An important issue in this regards is the protection of poverty rights for goods and physical assets. Often many of the poorest farmers in developing countries lack clear title to the land on which they work

Therefore, if programmes to grant them clear title are implemented, there would be the dual advantage of strengthening their incentives to increase output and efficiency and progress of the country. Greater equality of access to credit is particularly important, for it is one of the most powerful means for opening markets to the poor.

Expanding opportunities for obtaining credit can help the poor reap the high potential rates of return from investing in education; it can also make small scale farmers and artisans more economically viable by allowing them to enlarge their scale of production, or to take more risks, and to avoid short sighted strategies. Most often, the poor are unable to resolve their situations without assistance because, even when they have the skills required to undertake a given production activity, they are confronted with obstacles which hinder access to the capital they require. One of these barriers is the requirements for collateral.

As they do not have it, they cannot obtain loans. This derives partly from a fundamental dilemma of credit markets, that is that outside agencies (including government banks) do not have enough local information about the borrower and monitoring is costly, so they insist on collateral that excludes many of the poor. Local lenders who have more personalized information about the borrower tend to use this competitive edge which they possess i.e. the fact that they are few to charge high interest rates which the poor can ill afford. Governments must provide access to credit to permit the maintenance of a minimum level of consumption and maintain investment in productive activity. Also important is the access to infrastructural facilities. Investment in rural infrastructures such as roads, water supply and electricity supply would support farm prosperity and encourage cottage industry and other forms of industrial enterprises.

## THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The importance of rural and community development in the overall development of the country was implied in 1972 conference of the Nigeria society on rural development in Nigeria also in the activities of directorate of food, road and rural infrastructure (DFRRI) in 1987 and finally led to the move for a micro finance institution system which is one of the major tools of structural adjustment programmes introduced by Babangida administration to meet the credit needs of millions of small scale producers and other economic actors in our rural and near rural areas

Okigbo (1977:3-5), in his financial review, reported that it is pertinent to mention at this juncture that the introduction of rural banking scheme has done a lot to sanitize the banking habit of the rural dweller but could not achieve the expected result but with the introduction of community banking system, the problem faced by the rural banking scheme was able to be tackled since it imposes confidence in the mind of the community in which it is operating.

Uniamikogbo (1996:28-29), opined that in recognition of the paramount role of finance in agricultural production, the government initiated new banking scheme to complement the existing ones which to a large extent were not directed toward those in the rural and informal sectors of the economy. Consequently, the people's bank of Nigeria was established in 1989 to provide loans to low income persons and those in the informal sector throughout the country. One of the major issues in Nigeria's under development, and hence poverty is not only the inadequate mobilization of financial resources in the rural areas for rural development, but also the channeling of available resource from the rural areas to the urban areas. To ensure widespread and adequate delivery of banking services to the rural areas, the community banking was re-launched in 1990. Development in the operations of the people's bank of Nigeria since its inception has been mixed. While the notion that some members of the low income group have benefited from the scheme is not really true, it is equally on record that its goal has not been fully realized in the case of the community banks, the financial performance of the reporting banks, showed a deceleration, as measured by their performance indicators. Due to the nature of ownership structure, location and the composition of the employees of the established community banks, which do not meet the CBN registration, have not fully realized their objectives. It cannot be claimed that most of those programmes and schemes have actually contributed much toward the alleviation of poverty.

Joe and Attah (2005:2), in their own contribution submitted that various countries world over have been awakened to the task of poverty reduction in this generation more than ever before. According to them, the strategies adopted for poverty reduction vary from country to country. Most countries advocate full scale public enlightenment on the prevalence, the extent, the effects and evil of poverty as the starting point. This is followed by involving the poor themselves in identifying what should be done for them. For any poverty alleviation initiative to last, emphasis should be placed on empowering the poor not from the angle of charity and subsidy but from angle of economic principles.

Attah (2005:2), reiterated further that, in the past, poverty alleviation have been combated without proper census of the poor and their poverty statistics such as age, qualification, family size, occupation, income and residence, amongst others. This trend had led to dissipation of resources and at times their application in wrong directions. Poverty reduction concerns should, in modern times, set targets as vision for driving person and resources in the proper directions, possible areas on which emphasis should be placed include improved access to productive assets, technological development and replication, information on input and outputs markets and specifically targeted women programmes.

Micro-finance as a tool for an increase agricultural productivity is part of the adopted strategies for poverty reduction as reflected in Indonesian experience. Indonesian according to Joe (2005:2) observation is a country of over 17,000 islands with a population of over 215million. The economy is driven by the oil sector, agriculture, trade, commerce and micro, small and medium enterprises (MSME). It has a land area of about 1.8million square kilometers. The population was growing at about 1.5%; literacy level was 88.5% while life expectancy stood at 69years as at December, 2004. The rate of inflation is about 5% while about 9,000.00 Indonesia Rupee (IDR) exchange for the dollar by December 2004. The country's per capital GNP amounted to about $900.00, as at December, 2003, the economy grew at 4.1%, lending rate stood at 16% and the GDP amounted to $195.2billion is being combated from various angles. Actively involved in the poverty reduction strategies in the country are the government of Indonesia, the bank Indonesia and the private section.

The Indonesian government implements its poverty reduction programmes through its interim poverty reduction strategy paper (IDRSP). The paper's two grand strategies are increasing income through access to

opportunities and reducing cost of basic needs. The government through Act No25 of 2000, on national development programme (NDP) targeted to reduce the incidence of poverty by 4% within the year 2000-2004 the government of Indonesia has been implementing programmes to improve general food security, lower infant and child mortality, compulsory basic education for school age children and improve access to safe drinking water.

In 1999, a Banking Act was enacted to enable the bank of Indonesia (BI) operate in line with international trends in central banking. Its principal object was a shift in multifunctional to core functional mandate aimed at reaching and maintaining the stability of the Rupiah (the local currency) through pursuance of monetary and financial system stability for Indonesia’s long term sustainable development. While the bank no longer stipulate sectoral quotas interest rates, and does not engage in provision of refinancing funds for credit to priority sectors, its activities in the new Act focus on creation of enabling environment, information dissemination, promotion and supervision of micro-lending, technical assistance and capacity building for micro-finance providers and clients. The BI is specifically involved in regulation and supervision of the rural banks, promotion of linkage programmes between the later and commercial banks. Small and medium enterprises (MSMEs) desks, operation of a credit bureau, capacity building programmes and international cooperation.

The private sector initiatives stern from the main private providers and promoters of micro finance services in Indonesia which comprised of the commercial banks (the Bank Rakyat Indonesia being the most prominent) rural bank, rural bank associations, cooperatives and non-bank financial institutions. The bank Rakyat Indonesia (BRI), a state owned bank was established in 1895 to provide banking services to the rural areas particularly for agricultural purposes.

Egbon, (1994:22) observed that the high demand  and high price of crude oil between 1971 and 1985 coupled with high foreign exchange earning from the oil sector is mainly responsible for lesser attention to the agricultural sector and hence food shortages in the country. He further opined that the top-down approach to development planning in Nigeria led to phenomenal growth of the urban sector at the expense of the rural areas which support the agricultural population.

Olashore (1991:22) associated the present food shortages with the decline in agricultural production. According to him, agricultural was responsible for all foreign exchange earnings until 1980’s when the source of earning became insignificant.

Ojo (1991:25) aptly shown that between 1960 and 1975, food supply grew at an annual rate of 2.3% while domestic demand grew at 3.4% annually. This disequilibrium in supply and demand for food according to him arose from such factors as population increase, rapid urbanization, per capital income growth, monetization of national income and shifts in consumer’s preferences, among others.

As at January, 2005 it had one head office, 12 regional offices, 323 branches, 64 sub-branches, 3916 units and had reduced its original interest to 59% of the shares of the bank with the remaining part- subscribed to by the members of the board of commissioners and directors, and the general public. Assets of the bank amounted to $11.11billion.

Traditionally, the bank was used as a vehicle for channeling government subsidized loans to the rural dwellers up to 1984. many of the loan to the farmers were eventually not repaid and this threatened the sustainability of the banks with effect from 1984, government interference in the activities of the bank was discontinued, the bad agricultural loans were absorbed, partial divestment of state ownership of the bank was embarked upon and the bank was empowered to operate on purely commercial principles; mobilize its deposit, source for funds, and charge interest as dictated by the market forces. Before this time, the bank had already established a wide branch network and what remained were the competences necessary for offering services in those branches in a profitable manner. As part of the turn around initiatives of the bank, each of its branches was charged to operate as profit centre with individual financial statements.

In Indonesia, there is a linkage programme between commercial and rural banks to enable the later source for wholesale funds from the former. In Nigeria, it would be worthwhile to fashion out an appropriate and attractive model for a linkage to be promoted and encouraged between universal banks and community banks /micro-finance institutions to create room for the later to source for loanable funds for on-lending to their clients

FINANACIAL INSTITUTION AS ENGINE OF GROWTH

The Central Bank of Nigeria (CBN) as the apex bank designs policies that would allow for the orderly growth and development of the economy, while the other banks not only implement these policies but also ensure that resources are channeled to areas that would enhance economic development. Loans and advances to the productive sectors of agriculture, industry and infrastructural facilities have the potential of enhancing the productivity of the economy. The central bank of Nigeria has over the years, in line with its developmental role made resources available to sector of the economy that has contributed to growth. The CBN continued to promote the development of agriculture through the Agricultural credit Guarantee scheme (ACGS). The deposit money banks and the specialized banks have also been involved in mobilization of loanable funds for the growth and development of the various sectors of the economy.

In order to encourage banks to participate in agricultural development, the CBN according to Amoo (2005:94) introduced the agricultural credit Guarantee schemes (ACGS) in 1977, under the scheme, the CBN guarantee loan to farmers to the tune of 75% of the amount in default. Following the increase in the paid-up capital of the scheme to ₦3.0 billion in 2001, the guarantee limit for loans under the ACGS were raised that year. The limit for the colaterized loans to individuals was raised from ₦500,000 in 2000 to ₦1.0million, while that for cooperative society and corporate bodies was increased from ₦5.0 million to ₦10.0 million. The ACGS has encouraged agricultural groupings such as farmer's cooperatives to benefit collectively from agricultural loans. As at the end of 2002, the cumulative number and value of loans guaranteed under the scheme stood at ₦338,084 and ₦4.35billion respectively. To encourage repayment culture, the interest Drawback scheme which was approved in 2002 refunds 50 percent of interest paid on agricultural loans back to farmers.

Ukeje (2005:96) opined that the provision of agricultural credit through the conventional banking institutions was supported with the establishment of the Nigerian agricultural and cooperative bank (NACB) in 1973. Its mandate was not only to provide agricultural finance for on-lending to farmers and cooperative society but also to provide funds for agricultural development projects and allied industries. The NACB has been reconstructed to cope with the current challenges of resources mobilization for the agricultural sector and poverty alleviation for the teeming population of farmers, who are the beneficiaries of its loans. The bank had thus been merged with the peoples Bank of Nigeria and the family economy advancement programme (FEDP) to form an enlarge Nigeria Agricultural, Cooperative and Rural Development Bank (NACRDB) with share capital of N50billion. The restructured bank since commenced full operation.

The peoples' bank of Nigeria was established on 3rd October, 1989. It is a specialized bank set up specifically for the poorest of the poor. For this reason, it provides small loans to enterprises owned by the poor. Many petty traders including the small scale farmers can, for example, obtain a loan as small as N5000.00 or as high as ₦20,000.00 depending on the scale of operation and their performance. The loans require no collateral, nor do they attract interest charges. The beneficiary will only be charged a small proportion of the loan to enable the bank meet its administrative cost.

The aims and objectives of the bank include:

- Extension of credit facilities to the less-privileged members of the society who cannot normally benefit from the services of the conventional banks
- Provision of opportunities for self employment for the vast utilized and under utilized manpower resources in the country

- Complementing government effort in improving the productive base of the economy
- Inculcating banking habit at the grass root level and reducing the rural-urban migration
- Eradication of poverty and provision of succors to the poor bringing relief to the financially marginalized group in the society.
- Cushioning the painful effects of the structural adjustment programme (SAP) on the depressed sector of the economy.

The features of the PBN credit delivery include:

- Loans are aimed exclusively at the bottom poor, the poorest of the poor.
- The loans are small, quick and easy to obtain, and are of short term duration, just as the poor want them.
- The borrowers are organized into group of 7 -10 members individuals are also qualified for the banks loans.
- Each group recommends its member for loans and ensures that the borrowers pay back the loans at and when due
- The period of loans is 52weeks.
- The repayment of loans is on weekly installment commencing two weeks after the loan is granted except for agricultural loan which is given 23 weeks moratorium. The two week grace is to enable the beneficiaries apply the loan to their business, and make some money and able to began repayment. Those who pay their loans fully and according to schedule are entitled to another loan thereafter.
- The borrower are allowed to freely choose the types of business they engage in and for which they need loans
- The bank operates various saving accounts and encourages its customers to open and save in these accounts.
- The bank establishes simple offices and makes use of bank workers that the poor can easily relate to and identify with.

Hamram, (1997:107), observed that intervention of government through these institution to alleviate poverty including the people's bank of Nigeria have not made the desired impact, for instance, in the seven years of people's bank, no critical evaluation of its programme and assessment of its impact on the people could be made to follow up the profile of its loanees, whereas as a poverty alleviation institution, it should really be possible for the bank to follow up the economic growth of its clients, assess the impact of the loans and see if they are emerging from one poverty level to another so that they can be assisted with further loan to make them grow.

As at now, Micro-finance Bank is not training its loan beneficiaries and preparing them for judicious utilization of loans .it is true, people's bank is not a training institution and as such ill-equipped for this crucial assignment. In fact going into training could create unnecessary diversion from its mandated role, yet training of loanees is an essential and desirable capacity building activity. There is therefore need for a multi-agency approach to micro credit delivery with specialized agencies emphasizing their area of comparative advantage.

MACRO-VIEW OF THE NIGERIAN NgOs

Non governmental organizations are present in almost all society of the world and are of a wide variety ranging from credit unions involved in collective saving pools allotted in turn to members according to their saving share to village volunteer groups engaged in common tasks such as seasonal agricultural work.

In Nigeria, the establishment according to Adebayo (1997:401) of NgOs dates back to the period before 1940 in which not less than 20 NgOs were established in the pre independence period. In the post-independence and across the economic boom periods, 41 other NgOs came on stream. This brought the number to 61. Perhaps as recognition of the NgOs as essential players in the socio-economic reconstruction of Nigeria, 163 new NgOs were registered during the period of serious economic recession and adjustment. UNICEF records show about 224 NgOs classified by period of establishment in Nigeria

A good number of NgOs in Nigeria focus on the problem of the declining state of agricultural productions, unsustainable farming practices and poverty. For instance, Imo Self Help Organization (ISHO), Nsukka, united self help organization (NUSHO), committee for women in development (COWARD), lift above poverty organization (LAPCO), development exchange centre, kakene, Bauchi (DEC), country women association of Nigeria (COWAN), alternative development (Alter Dev.), women farmers association of Nigeria (WOFAN), and FADU focus mainly on poverty alleviation activities among the rural poor all over Nigeria. Specifically, they promote community based agricultural projects (Adedoja, 1996:3).

On farmer development union as expressed by Adedoja (1996:3), the establishment dated back to 1989. It emerged as an organization of low-income rural and sub-urban peasants in Nigeria. The main focus of the union is micro-enterprises development among the poor by assisting the income-generating initiative of the disadvantaged rural poor. To achieve this aim, FADU operates a credit and saving scheme, provide training to beneficiaries in areas of equipment, maintenance, marketing, enterprise administration, record keeping, environmental preservation at the project site and dissemination of new and appropriate technologies.

The union also supplies farm inputs to farmer on credit at subsidized prices. In addition, FADU engaged in rural socio-economy transformation by operating community targeted programmes in the area of health environment, adult literacy and water supply

The funding strategies of the union are based on two main sources. First, it sources fund by operating a micro-credit programmes with members progressively participating in savings contributions. This source of funding represents about 46% of the total loan capital.

The second source which has considerably improved the loan port folio of FADU and made the credit scheme sustainable is grants. According to Adedoja of $50,000 to the organization. Also CUSO in February, 1990 assisted the union with N15,000.00. Other bodies that have also helped FADU are EZE and European Union.

## HOW FADU OPERATE IN NIGERIA

The operation of FADU in Nigeria serves to complement government effort particularly as evaluations of government own programmes.

The three main strategies identified are:

1. To pursue economic growth as along term solution
2. To introduce specific programmes targeted to increase the earning opportunities of the poor and
3. To adopt social programmes targeted at the poor,

FADU's activities fall in the group of specific programmes to increase the earning opportunities of the poor.

FADU in an attempt to develop the capacity of poverty to meet their needs through local action operates different kinds of training scheme for the rural poor before offering assistance. The local community is encouraged to form groups and societies, after which FADU officers identify the type of training which would enable them, make the best use of the opportunities in their local area.

FADU training programmes include: (1) Record keeping (2) Effective Group management, (3) Saving mobilization, (4) Credit administration, (5) Leadership, (6) Micro-project management and (7) Business and market skill.

For the first five types of training, FADU has succeeded covering 321,430 rural poor all over the federation. These people are spread over 32,143 societies and 74,365 villages in the countries. On the micro- project management, and business and marketing skill training, 8,391 rural people have benefited. They are from 176 societies all over 81 villages in Nigeria. Hence the first focus of FADU is on human resources development of the poor to increase their productivity at the grass roots informal activity. FADU take this training as a way of grass roots empowerment. Each formation of the grass root structure, from group of the zonal levels, is reinforced with training to undertake initiatives and plan for development of their members. A part from the training and mobilization schemes, there are three main assistance programmes for the poor. The first is the revolving credit scheme in which credit is extended to small producers, i.e. people that cannot benefit from the conventional financial services of Nigerian commercial banks. These people do not run registered organized businesses but operate in the informal sector of the economy which is very critical in a micro-based developing economy like Nigeria.

By December 1996, Adesanya (1997:3) stated that a total of about 79.34million had already been invested in the scheme. This amount which catered for about 29,000 rural poor in 2,834 societies spread over 7,435 villages in 26 states of Nigeria. This coverage for a single NGO shows the fundamental importance of NGOs in development activities and FADU has been creative in its genuine participatory development to poverty alleviation. The income generated from the invested loan pool at the society's level by members is designed to guarantee sustainability.

To benefit from the scheme, however, borrowers must be a member of FADU at group level, and must have saved at least 25percent of the loan requested with the society. The loan recovery process is determined by the way it is disbursed. Individuals repay weekly to the society as the investment starts to yield income and the society repays FADU.

The second main assistance programme of FADU is the low cost of food Processing Technology. FADU has invested about N13.27 million in an attempt to disseminate low cost and locally fabricated production technologies. The union is specifically interested in the dissemination of post harvest food processing and irrigation technologies that are affordable to poor resourceful rural producers.

The third main programme is comprised of rural related environmental projects with a special focus on a safe water scheme and adult literacy. These two schemes are in operation only in two states, one to each scheme. The safe water scheme has benefited only 2,783 people in about 7 societies over 3 villages. The adult literacy scheme has been extended to only 41 people in 5 societies of a single village. These schemes are intended to complement the first two main schemes of FADU, in recognition of myriads of other problems such as illiteracy, environmental degradation, water and sanitation etc.

Other important areas of FADU'S operation are in farm input supply. The union has engaged in the supply of cutlasses, agro-chemicals, and seeds and seedlings. Specifically 3.5million committed to agro-chemical supply to 612 rural poor and N414,000 used in purchase of seeds and seedlings for 10,113 farmers all over the federation.

With regard to institutions, the Nigerian agricultural cooperative and rural development bank (NACRDB) provides both Micro and Marco credit facilities of all agricultural activities and micro credit for non-agricultural projects such as artisanship, trading, small and medium-scale businesses, etc, in the ratio of 70 to 30 percent. Also there is a substantial number of NGOs working to alleviate poverty in the county. However, most of the activities of these NGOs are tailored towards the provision of micro-credit. It is hoped that the financial capacities of the NACRDB and those of the NGOs should to a reasonable extent;

enhance the access of the rural dwellers including women to finance resources which will assist them in expanding their productive enterprises.

## RECOMMENDATIONS

The above is indicative of more of efforts by the government of Nigeria to reduce poverty through increase productivity by such programmes and institutions as operation feed the nation (OFN), Green Revolution, Agricultural Development Programme (ADP), National Agricultural Land Development Authority (NALDA), strategic Grains Reserve, National Directorate of Employment (NDE), Vocational skills development programme, special public works programme, small scale enterprises programme, the directorate of food, roads and rural infrastructure, better life programme, Family Economic-Advancement Programme (FEAP), health care scheme, universal basic education and National Poverty Eradication Programme (NAPEP).

The government of Nigeria should therefore initiate various focused pro-poor programme that would ease the suffering of the rural/urban poor masses especially in the provision of micro credit by relaxing the rate of interest change on the loan given to them. Also the disbursement organ should try as much as possible to separate the entire loans meant for the farmer or the poor from the administrative grant meant to run the offices of the micro credit finance institution. The repayment period for the agricultural loan can be extended till after a year of operation because of the risk and uncertainty inherent in farming enterprises. The current 8% per annum is alright for now but the loan for small scale farming enterprise should be pegged at N250,000 minimum to encourage more grassroots participant and this will increase stakeholder productivity and eventually level of investment which will bring down. Some of the macro-economic problems like unemployment and inflation with ease of tax payment.

It is also observed that the time lag between the period of application processing approval and advancement of the loan covers almost one year which is considered too long should be done within six months so that if the applicant misses the planting operation in the rain, he could use the loan to pursuit his/her operation in the dry season especially those on irrigation practices. It is therefore important to consider the timeliness of operation of the would-be loan beneficiaries so as to effect prudence in spending.

In lending, the bank directors should always give the managers and their subordinate authority to exhibit their professional skill. The management should ensure that they make the best use of a sound canon of lending to ensure adequate repayment and recovery at the schedule time of payment. It is worthy of mention here that the credit officer for the management of the credit institutions should not at any time engage themselves in settlement syndrome.

There is need for adequate training of staff, good welfare package and incentives especially in the low cadre so as to retain experienced staff and reduce their level of staff turnover.

There is need for enlightenment on the activities of micro finance institutions in transforming the economy of the rural dwellers and this can be done by the Central Bank and other agents of government through seminars, audio visual propaganda, workshops etc. Furthermore, the micro finance institutions should liaise with others such as community development associations, traders association and national orientation agency to organize seminars on the activities of the rural bank in the area in reducing the suffering of the people through creation of credit to millions of small scale producers and other economic actors in a way of upgrading their standard of living.

Thus, they should operate micro credit institutions like other conventional commercial banks in terms of services, capital base, supervision, control and management. They should also be allowed to have treasury offices within their catchments area; this will serve as their branches thereby adequately minimizing the volume of idle funds that might be in the unbanked area of the economy.

Similarly the interest rate should be reviewed by government to encourage savings, loan advances and improved banking culture in our rural and near rural communities. The government can as well offer more help by bringing the activities of traditional act for the purpose of control and supervision and to use the base to advance loans to farmers and other economic actors in the community since those societies can guarantee borrowers loans, recommend their members to community and as well assist in the recovery of doubtful or bad debts.

The government should also intensify its efforts on rural and community integration programmes in terms of provision of basic necessity of life such as electricity, provision of drinkable water, hospitals, schools and colleges, security service, and other basic needs.

The distress community banks should be granted a matching loan from the National Board for community banks and close monitoring and supervision should be adhered to in order to ensure compliance with the disbursement of such fund.

There must be effective internal control system. This is to ensure the safety of bank assets, the accuracy and adequacy of periodic statement and report to shareholders, regulatory bodies, customers and the public in general. The internal control procedure should be handled by a competent internal auditor or inspector who will be independent to prevent abuse of office. The inspector should report directly to the board of directors for adequate supervision and control of the bank activities.

Lastly, government should also aim at developing our rural informal sector. This will provide a complete internal combustion needed for the take off of the rural community economy. And ensure no leakage of funds to be invested in rural areas be diverted to urban use.

Nevertheless, if all these recommendations and other measures recommended are properly implemented, they will bring about the existence of highly monetized and economically viable rural economy in Nigeria.

## SUMMARY AND CONCLUSION

The micro-credit finance institution system is a new dimension which has gradually gained momentum and importance for the monetization and development of the rural and near rural economy. The system though aimed at developing the rural economy but the spread effect extended to the urban communities.

This will bridge the gap between the rural-urban economies thus the contract effect will further develop the general economy.

Moreover, the success of the system will have a tremendous impact on the financial and economic development of Nigeria in general and rural economy in particular. This is possible through its positive impact on banking habit, rural transformation, via a conducive investment environment; as a result reduce rural-urban drifts. Also MFLs on their parts should regard the system as a social responsibility and their own way of contributing to the growth and development of the community. The institution will thus be undertaken promotional and developmental roles. The development of appropriate policy and strategies for poverty reduction and improvement in livelihoods of the people, especially the poor, require a good understanding of the nature and dimension of poverty. Reduction of poverty to increase production should therefore be central to the development strategy of Nigeria and not to be viewed as social issue to be solved by small intermittent interventions.

Again there is the need for reformation of land use Act in a way that will provide negotiable and registered title to land whether for farming or other development so that producers of all sizes and categories can have an economic assets which can be used as collateral to raise their credit needs so as to enhance economic activities.

It can be concluded that the role of MFLs in transforming the economy is very crucial and if the rural area is to be transformed and developed economically, their operation must be sufficient to mobilize savings from the unbanked area. The government should promote the development of micro finance sector along with the NGOs contributions through prerequisite policy, provision of inducements and institutional framework that foster linkages.

Generally efforts must be intensified in implementing the above suggested points properly for economic growth and development of the country.

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